

**INDIANAPOLIS LOCAL PUBLIC
IMPROVEMENT BOND BANK**

**TAX REVENUE ANTICIPATION
NOTE PROGRAM**

PROGRAM OVERVIEW AND MECHANICS

Program Overview

The Indianapolis Local Public Improvement Bond Bank's Tax Revenue Anticipation Program is designed to alleviate cash-flow problems created by the collection and distribution of the property taxes.

Since its inception in 1988, this program has provided semi-annual cash advances to qualified governmental entities in anticipation of the receipt of ad valorem property taxes. The advances are made through the purchase by the Bond Bank of warrants of each of the Qualified Entities ("Q.E.s"). Until such advances are needed, the Note proceeds remain on deposit, earning interest (at a rate higher than the yield on the Notes) which is used to pay for the costs of issuance of the borrowing program and may, at the discretion of the Bond Bank, provide a subsidy to the Q. E.s' borrowing rate.

Currently, the Qualified Entities are:

- City of Indianapolis
 - Police General Fund
 - Fire General Fund
 - Police Pension Fund
 - Fire Pension Fund
- Marion County
 - General Fund
 - Welfare Family and Children Fund
- Indianapolis Public Transportation Corporation
- Indianapolis Marion County Public Library.

To date, the Bond Bank has sold 26 semi-annual issues of tax anticipation notes, totaling over \$1.6 billion. The average issue is about \$55 million, but have gone as high as \$80 million.

The professionals assisting in this transaction, which have changed little since the program's inception, are as follows:

Bond Counsel: **Ice, Miller, Donadio & Ryan**
Placement Agent / Financial Advisor: **First Albany**
Financial Agent: **H. J. Umbaugh & Associates**
Verification Agent: **Crowe Chizek**
Trustee: **Bank One**
Rating Agency: **Standard & Poor's**

Current Program Structuring

The Program enables each Q.E. to borrow up to 80% of the entity's anticipated tax levy for the semi-annual cycle. The Q.E. uses these funds for any purpose

Issuance of the Notes is comprised of a three-part process:

1. Firms rated at least Aa/P1-AA/A1+ are invited to bid on a Guaranteed Investment Contract. Because the GIC becomes part of the credit of the Notes, it is bid prior to the pricing of the Notes. The proceeds from the sale of the Notes are deposited in a GIC with the winning bidder. Since over 90% of all note proceeds are spent within six months, there is no restriction on investment yield.
2. Subsequent to the awarding of the GIC, the Notes are priced to get the best possible rate under current market conditions. Although privately placed to keep the costs of issuance as low as possible, the Notes are discussed prior to sale with a large number of potential investors in order to competitively get the lowest yield. It is also a goal of the pricing to achieve an investment rate on the GIC sufficiently in excess of the Note yield to allow the Bond Bank to pay the program's costs of issuance, subsidize the Q.E.s' warrant rate and have a sufficient cushion remaining to cover any unforeseen eventualities.
3. After determining both the investment rate and the note yield, a rate of lending to the Q.E.s may be set, at the discretion of the Bond Bank. The rate is set at a level high enough to ensure repayment on the Notes, but low enough to provide an attractive rate to the borrowing entities.

The Bond Bank uses a financial advisor to assist in projecting the timing and magnitude of cash flow deficits, sizing the note issue based upon these deficits and projected interest earnings, and calculating the level of subsidy which can be provided to the City's governmental units. S&P has historically rated the entire pooled issue SP-1+, its highest short-term rating.

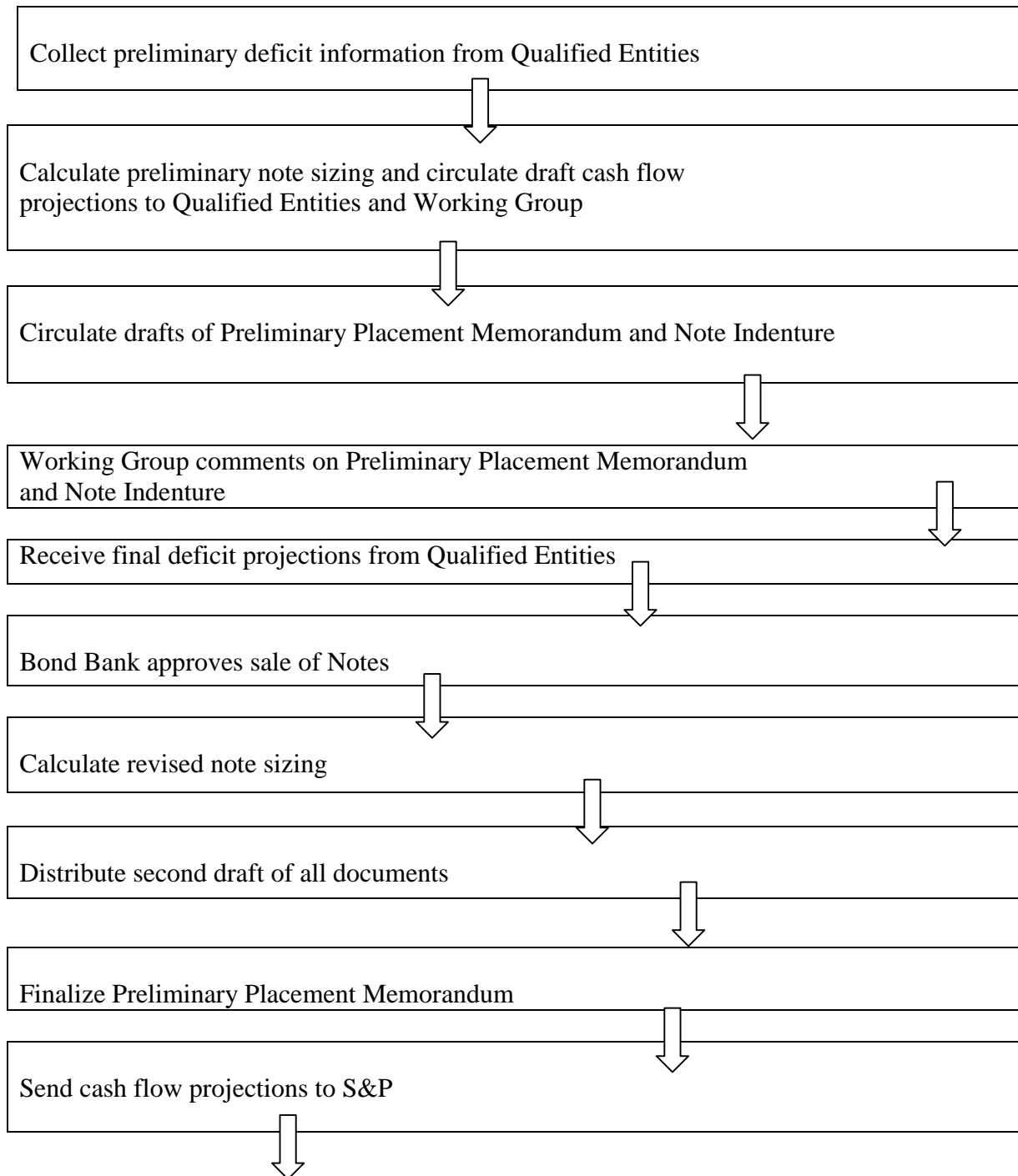
While the interest rate on the warrants is the same as the interest rate on the Notes, the program nonetheless offers significant benefits to the Q.E.s. As a result of participation in the warrants program, each Q.E. receives better market execution and lower transaction costs than if an individual Q.E. were to go to market on its own. In particular, IPTC and the Library, as the two lower rated of the four entities, receive the benefit of the SP-1+ rating, something they probably could not achieve if borrowing based on their own credit rating.

The non-callable Notes, which mature approximately six months after issuance, are generally purchased by money market funds. The most recent issuance had seven (7) primary purchasers: Paine Webber, Citibank, Federated Investments, Vanguard, Fidelity Investors, AIM and Alliance Investors.

Steps to Close a Note Issue

Concurrently with the work required on the current Notes, work must be done on the structuring and sizing of the next Series of Notes. The following table details these tasks.

Task



Mail Preliminary Placement Memorandum



Bid Guaranteed Investment Contract



Note Pricing



Note Sale



Finalize Placement Memorandum



Final Placement Memorandum distributed



Closing